

Message Text

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ACTION NEA-16

INFO OCT-01 EUR-25 EA-11 ISO-00 NEAE-00 AGR-20 FEA-02

FPC-01 AID-20 CIAE-00 COME-00 EB-11 FRB-02 INR-10

NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08 CEA-02 L-03

H-03 DODE-00 PA-04 USIA-15 PRS-01 SEC-03 AEC-11 SAM-01

DRC-01 SPM-01 SWF-02 /234 W
----- 109936

P R 111004Z JUN 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC PRIORITY 5166

INFO AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY KABUL

AMEMBASSY MANILA

AMEMBASSY NEW DELHI

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MANILA FOR USADB

E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: GOP BUDGET - 1974/75

1. SUMMARY. OVERALL, NEWLY PRESENTED GOP BUDGET FOR FY
74/75 STEP IN RIGHT DIRECTION THOUGH DIRECT BENEFITS WILL
ACCRUE ALMOST ENTIRELY TO MIDDLE AND UPPER CLASSES. NUMER-
OUS BENEFITS OFFERED MIDDLE CLASS APPEAR TO BE CLEAR INTEN-
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TION BY GOP TO MOLLIFY THIS GROUP. INCENTIVES TO PROMOTE

STOCK MARKET MAY ENCOURAGE PRIVATE BUSINESS ACTIVITY. WAGES AND SALARIES INCREASED BY TEN PERCENT BUT OVERALL INCREASE IN EXPENDITURES HELD TO ABOUT 14 PERCENT. INDUSTRIAL AND COMMERCIAL WAGES SIMILARLY INCREASED. TAX REVENUES EXPECTED TO INCREASE ABOUT NINE PERCENT, DESPITE SIGNIFICANT CONCESSIONS TO MIDDLE CLASS TAXPAYERS AND NEW INVESTMENT INCENTIVES. BUDGET INCLUDES MAJOR REDUCTIONS IN SUGAR AND EDIBLE OIL SUBSIDIES AND REDUCTION IN EXPLICIT AND IMPLICIT SUBSIDIES (E.G., POL, NATURAL GAS) THAT HAVE CAUSED MAJOR PRICE DISTORTIONS IN THE ECONOMY. BENEFITS TO MIDDLE CLASS AND PROFESSIONAL GROUPS, AND INCENTIVES TO PROMOTE STOCK MARKET, SHOULD HEARTEN DISCOURAGED PRIVATE BUSINESSMEN. END SUMMARY.

2. SATURDAY EVENING, JUNE 8, PAKISTAN'S FEDERAL FINMIN, MABASHIR HASAN, PRESENTED GOP'S 1974/75 BUDGET TO A HALF EMPTY SHANAL ASSEMBLY. (MOST OF OPPOSITION CONTINUED UNRELATED BOYCOTT.) FINMIN PRESENTED BUDGET AS ATTEMPT TO COMBAT INFLATION AND TO PROVIDE RELIEF TO GROUPS HARDEST HIT BY RECENT PRICE INCREASES. HIS SPEECH REPEATED HIS GENERAL DISTRUST OF PRIVATE SECTOR AND THEME OF THIRD WORLD COUNTRIES' EXPLOITATION BY DEVELOPED NATIONS (SEPTTEL).

3. ALTHOUGH MAJOR INCREASE IN INCOME TAX EXEMPTIONS WILL CUT NUMBER OF HOUSEHOLDS SUBJECT TO SUCH TAX IN HALF, FY 75 TAX REVENUES ARE EXPECTED TO INCREASE ABOUT NINE PERCENT OVER THIS YEAR'S ESTIMATED ACTUALS.

4. EXPORT DUTIES, PARTICULARLY ON COTTON, COTTON YARN AND TEXTILES, WHICH HAVE BEEN A MAJOR FACTOR RESTRAINING EXPORTS THESE ITEMS IN RECENT MONTHS, WERE CUT. WE ESTIMATE REDUCED EXPORT DUTIES ON COTTON YARN WILL STEP UP EXPORTS FROM INVENTORY OF ABOUT 100 MILLION POUNDS OF YARN ACCUMULATED AS WORLD PRICES HAVE DROPPED. RAW COTTON EXPORTS (OF WHICH THERE ARE LARGE STOCKS) SHOULD ALSO RECOVER.

5. DESPITE FINMIN'S CRITICISM OF PRIVATE SECTOR, HE OFFERED SIGNIFICANT INVESTMENT INCENTIVES, TAX RELIEF FOR MIDDLE CLASS, AND ANNOUNCED SPECIFIC MEASURES INTENDED TO AID STOCK MARKET. TAX HOLIDAYS ON NEW CONSTRUCTION (PARTI- LIMITED OFFICIAL USE

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CULARLY RESIDENTIAL INCLUDING APARTMENTS) AND MAJOR TAX CONCESSIONS FOR NEW PRIVATE SECTOR INVESTMENTS, PARTICULARLY THOSE TO BE LOCATED OUTSIDE URBAN AREAS, WERE GIVEN. SUBSTANTIAL TAX RELIEF ALSO GIVEN ON DIVIDENDS AND CAPITAL GAINS EARNED ON INVESTMENTS AND ON SHARE TRADING. DECLARED PURPOSE OF LATTER MEASURE IS TO INCREASE SMALL SHAREHOLDER EQUITY AND UNIT TRUST (MUTUAL FUNDS TYPE) PARTICIPATION AND PROMOTE STOCK MARKET RECOVERY.

6. LINE ITEM DEFENSE EXPENDITURES INCREASED BY APPROXIMATELY 32 PERCENT FROM FY 73/74 PROPOSED BUDGET. IN CONSTANT PRICES THIS INCREASE IS ABOUT 5.7 PERCENT AND IS PARALLEL TO REAL INCREASE IN DEVELOPMENT BUDGET EXPENDITURES. BUDGET DOCUMENTS ALSO INDICATE THAT PUBLICLY IDENTIFIABLE DEFENSE EXPENDITURES IN FY 1973/74 INCREASED BY ONLY ABOUT 18 PERCENT OVER ORIGINAL BUDGETED AMOUNTS, LESS THAN THE INCREASE IN WHOLESALE PRICE LEVELS (25 PERCENT OVER TWELVE MONTHS ENDING MARCH 31) DURING THE YEAR. (HOWEVER, LINE ITEM DEFENSE EXPENDITURES, IS PRIMARILY SALARIES AND OPERATIONAL COSTS, AND DOES NOT INCLUDE MOST EQUIPMENT PURCHASES.)

7. REDUCTION IN URBAN CONSUMER SUBSIDIES FOR SUGAR AND EDIBLE OIL WILL REDUCE COSTS SUCH SUBSIDIES ABOUT RS. 1.0 BILLION IN COMING YEAR. SIMILARLY, BUDGET INCLUDED INCREASES IN RETAIL PRICES OF POL PRODUCTS TO TAKE ACCOUNT OF RISING WORLD PRICES. RETAIL PRICE OF KEROSENE (MOST COMMON HOUSEHOLD FUEL) INCREASED BY 25 PERCENT, GASOLINE SLIGHTLY OVER FIVE PERCENT (GASOLINE PRICES WERE INCREASED SUBSTANTIALLY EARLIER THIS YEAR), AND DIESEL FUEL 10 PERCENT. COMMERCIAL AND INDUSTRIAL PRICES OF ELECTRICITY INCREASED BY 10 PERCENT. NATURAL GAS PRICES INCREASED BY 50 PERCENT FOR ALL BUT HOME CONSUMERS.

8. SALARIES AND WAGES OF ALL GOVERNMENT EMPLOYEES, INCLUDING THOSE IN PUBLIC CORPORATIONS, WERE INCREASED BY 10 PERCENT, WITH A MINIMUM OF RS.50 MONTHLY AND MAXIMUM OF RS.150 MONTHLY. THERE WAS A CONCURRENT INCREASE IN PAYMENTS TO PENSIONERS, AND IN THE WAGES OF THE PRIVATE SECTOR. WE ESTIMATE ADDITIONAL GOP OUTLAY FOR THESE PURPOSES IN GY 75 WILL BE ABOUT RS. 100 MILLION. HIGHER INCOME GROUPS WILL ALSO BENEFIT FROM HIGHER TAX EXEMPTIONS IN FORM OF EARNED LIMITED OFFICIAL USE

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INCOME RELIEF OR EXCLUSION ADDITIONAL TO NEW HIGHER TAX EXEMPTION MENTIONED PARA 3.

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H-03 DODE-00 PA-04 USIA-15 PRS-01 SEC-03 AEC-11 SAM-01

SPM-01 SWF-02 DRC-01 /234 W
----- 109872

P R 111004Z JUN 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC PRIORITY 5167

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9. EXCLUDING COSTS OF SUBSIDIES ON IMPORTS FERTILIZER AND
OTHER ITEMS, NONDEVELOPMENT EXPENDITURE GENERALLY EXPECTED
TO INCREASE BY ABOUT 11 PERCENT OVER ESTIMATED FY 73/74
ACTUALS.

10. DEPENDENCE OF DEVELOPMENT BUDGET (APPROXIMATELY \$850)
MILLION) UPON EXTERNAL FINANCING REDUCED FROM ABOUT 72 PERCENT
CURRENT YEAR TO SLIGHTLY OVER 65 PERCENT IN FY 74/75. OVERALL
INCREASE IN DEVELOPMENT EXPENDITURES IN REAL TERMS ABOUT 5.7
PERCENT.

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11. MAJOR EMPHASIS IN DEVELOPMENT BUDGET CONTINUES TO BE
UPON AGRICULTURE. HOWEVER, NEW DEVELOPMENT BUDGET INCLUDES
DEVELOPMENT EXPENDITURE FOR MALARIA CONTROL BY RS. 50 MILLION,
POPULATION PLANNING BY RS. 20 MILLION. A MAJOR INCREASE IS
IN AMOUNT BUDGETED FOR EDUCATION AND TECHNICAL TRAINING,
LARGELY FOR IMPLEMENTATION GOVERNMENT PROMISE TO WIDEN EDU-

CATIONAL BENEFITS.

12. FINMIN STATED INTENTION TO HOLD DEFICIT TO ZERO, DESPITE SMALL PROJECTED GAP BETWEEN EXPENDITURES AND AVAILABLE RESOURCES. WE ESTIMATE IDENTIFIABLE DEFICIT SPENDING DURING CURRENT FY 73/74, BASED ON REVISED ACTUAL FIGURES RELEASED WITH BUDGET, HELD TO ONLY RS. 258 MILLION. STATED INTENT IN NEW BUDGET IS TO HOLD DEFICIT SPENDING (EXCLUSIVE OF EXTERNAL ASSISTANCE AND MOBILIZATION PRIVATE SAVINGS) TO ZERO. HOWEVER, FULL PANOPLY GOVERNMENT BUDGET DOCUMENTS HAVE NOT YET BEEN RELEASED. WE WILL BE IN A BETTER POSITION TO JUDGE VALIDITY OR LIKELIHOOD THIS GOAL OF ZERO DEFICIT SPENDING IN A FEW DAYS.

13. COMMENT. WE ARE HEARTENED BY UREAL STEPS TAKEN IN BUDGET TO CORRECT SERIOUS PRICE DISTORTIONS IN ECONOMY THAT HAVE RESULTED FROM SERIES OF SUBSIDIES THAT HAVE ACCRUED OVER YEARS. WE ALSO PLEASED AT ENCOURAGEMENT TO NEW INVESTMENT AND REMOVAL OF DISINCENTIVES TO EXPORT THAT WERE TO RESULT OF THE MAINTENANCE OF EXPORT DUTIES DESPITE FALL IN WORLD PRICES OF PAKISTANI YEARN AND COTTON. WE ARE ALSO HEATENED BY APPARENT HOLDING OF LINE ON IDENTIFIABLE DEFENSE EXPENDITURES. WE EXPECT INFLATIONARY PRESSURES TO CONTINUE AS THE NEW WAGE PRICE INCREASE, THE THIRD SINCE JANUARY 1972, IS IMPLEMENTED. THE DECREASE IN SUBSIDIES WILL ALSO HAVE SOME IMMEDIATE COST PUSH EFFECT WITHIN THE ECONOMY. ONE DISCOURAGING OMISSION WAS THE CONTINUED ABSENCE OF ANY ATTEMPT TO TAX AGRICULTURAL INCOMES, A MEASURE WHICH WAS WIDELY EXPECTED. OUR INFORMANTS TELL US THAT THE OMISSION WAS LARGELY PROMPTED BY FEAR OF ADDING NEW FUEL FROM A DIFFERENT SOURCE TO RECENT PUNJAB DISTURBANCES. BUDGET BENEFITS WILL ACCRUE ALMOST ENTIRELY TO MIDDLE AND UPPER CLASSES. PAKISTAN'S REAL POOR WILL GAIN ONLY INDIRECTLY, IF AT ALL. BECAUSE OF NUMEROUS BENEFITS OFFERED TO MIDDLE LIMITED OFFICIAL USE

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CLASS THERE SEEMS A CLEAR INTENTION BY GOP TO MOLLIFY MIDDLE CLASSES AND UPPER INCOME GROUPS. SIGNIFICANTLY, INCENTIVES TO PROMOTE STOCK MARKET OFFER ENCOURAGEMENT TO PRIVATE BUSINESS ACTIVITY. OVERALL, WE BELIEVE BUDGET A STEP IN THE RIGHT DIRECTION. (ANALYTICAL AIRGRAMS FOLLOW ON BUDGET AND ON GOP ECONOMIC SURVEY OF PAST YEAR.) END COMMENT.BYROADE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, WAGES, STOCKS (SECURITIES), PRIVATE INVESTMENTS, TAXES, DEVELOPMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ISLAMA05580
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740149-1084
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740657/aaaabwsb.tel
Line Count: 269
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 26 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 APR 2002 by cunninfx>; APPROVED <19 FEB 2003 by izenbei0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOP BUDGET - 1974/75
TAGS: EFIN, PK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005